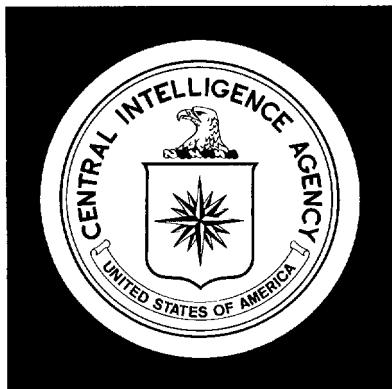


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DIRECTORATE OF
INTELLIGENCE

Central Intelligence Bulletin

Secret

No. 41

12 March 1973

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Approved For Release 2003/08/27 : CIA-RDP79T00975A024000040001-0

Approved For Release 2003/08/27 : CIA-RDP79T00975A024000040001-0

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Approved For Release 2003/08/27 : CIA-RDP79T00975A024000040001-0

25X1

No. 0061/73
12 March 1973

Central Intelligence Bulletin

CONTENTS

INTERNATIONAL MONETARY DEVELOPMENTS: Six EC nations agree to a joint float against the dollar. (Page 1)

FRANCE: Governing coalition wins clear victory in elections. (Page 3)

CAMBODIA: The government has backed down on economic reform measures. (Page 5)

CHINA: Peking is buying industrial plants from the West at a record pace. (Page 6)

ITALY-USSR: Communist talks in Moscow (Page 7)

JAPAN-PERU: Possible Japanese financing of oil pipeline across Andes (Page 7)

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Approved For Release 2003/08/27 : CIA-RDP79T00975A024000040001-0

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FINTERNATIONAL MONETARY DEVELOPMENTS: Six EC nations agreed yesterday to a joint float of their currencies against the dollar. Bonn announced a three-percent revaluation of the mark relative to its partners in the float.

West Germany, France, Denmark, Belgium, Luxembourg, and the Netherlands reached their decision, which reportedly is to take effect on 19 March, at an EC finance ministers meeting in Brussels. The other three EC members--the UK, Ireland, and Italy--already are floating their currencies and will continue to do so independently. The UK's conditions for entering the joint venture included a request for European financial support in the event of a run on sterling. Other European nations deemed this too expensive. The ministers agreed, however, to study ways to help the British, Irish, and Italians participate. Meanwhile, the Danish finance minister said he expected Sweden, Norway, Finland, Austria, and Switzerland to enter the joint float. The EC will present its new plan at a meeting of major industrial nations in Paris on Friday.

The six participating nations reportedly will also set up a \$10-billion common reserve fund to support the float. Earlier reporting from Brussels indicated that Bonn will provide the bulk of the funds. Bonn's revaluation of the mark, which also is to take effect next Monday, probably paved the way for French participation. Paris originally had demanded UK participation in order to prevent too rapid an appreciation of the European currencies. The mark revaluation will help serve the same purpose.

The Tokyo foreign exchange market also will remain closed until 17 March. Finance Minister Aichi said that the government would try to make [redacted]

12 Mar 73

Central Intelligence Bulletin

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SECRET

[redacted] sure that small enterprises would suffer no adverse effects from the closing. If problems develop, Tokyo almost certainly will allow interbank trading. The European nations have permitted interbank transactions since the central banks dropped out of the market early in March. [redacted]

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

12 Mar 73

Central Intelligence Bulletin

2

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*FRANCE: The governing coalition won a clear victory in the final round of the National Assembly elections yesterday.

Almost complete results gave the governing coalition 256 of the 490 seats--slightly more than it won in 1967--and 46 percent of the votes. Candidates supporting the coalition, but not running under the auspices of its three member parties, would add 15 seats to its majority. As expected, most of the coalition's losses, about 100 seats, came in districts represented by Gaullists. Losses by Independent Republicans and the minor coalition partner were slight.

The left alliance, which took 46.8 percent of the votes, won a total of only 173 seats. The Communists took 73, the Socialists 89, and the left Radicals 11. Most leftists were elected in heavily populated urban districts while the governing coalition drew its strength from less populous rural areas. These results may cause serious reconsideration of the value of the alliance, especially among those already questioning it. Doubts will be strengthened because the left won less than the 194 seats it held in 1967 when it was united only by a simple electoral agreement. Socialist leader Mitterrand may have to change his strategy for the 1976 presidential race in light of the personal victory Pompidou has won.

The centrists elected 28 candidates with 6.3 percent of the votes, failing by two seats to gain the minimum necessary for the status and privileges of a formal parliamentary group. They may yet be able to pick up support from victors not closely tied to the governing coalition.

The government was probably aided by an election eve television speech by President Pompidou who promised "bold social reforms" if his government

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was returned. His only other personal intervention in the campaign caused a significant, but short-lived gain in the government's position in public opinion polls last month. A heavy voter turnout of over 80 percent also helped the government. Frequently, leftists have voted in large numbers, while less disciplined voters have not. Yesterday, the centrist and uncommitted voters, who were the key to the race, came out in force to support the Gaullists and their partners. Foreign Minister Schumann and Justice Minister Pleven lost their seats, however. Although the law does not require ministers to win election to the Assembly, their future status is in doubt.

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Government leaders were clearly surprised by the margin of their victory. The latest private official analyses had projected winning in 243-246 districts. Because the government can now continue to control the Assembly on its own, it is not clear whether Pompidou will now choose to broaden his coalition by including Jean Lecanuet's faction of the centrists. The President's promises of reform indicated, however, that he has learned from the depth of discontent among the voters. While he may not make immediate changes, he probably will want to move forward, particularly on domestic issues. Foreign policy is his personal bailiwick and probably will not be affected. Pompidou may well want to bring in some of the centrists to add impetus to such reforms and to dilute the influence of hard-core Gaullists who might oppose them.

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12 Mar 73

Central Intelligence Bulletin

4

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CAMBODIA: The government has backed down on economic reform measures in the face of pressure from striking teachers and students.

On 9 March, First Minister Hak announced a series of measures designed to lower or block rises in current prices and to curb corruption. Chief among the new regulations are a continuation of government ceilings on the price of rice to consumers, a postponement of scheduled increases in utility rates, and a slight reduction in POL prices.

Higher prices were a key element in the government's effort to come to grips with Cambodia's deteriorating economic situation. The increases had been strongly recommended by the US and the International Monetary Fund as a way to increase tax revenues and to reduce government subsidy outlays. Subsidy costs will rise even higher as a result of increases in the cost of generating electricity and a recent government decision to support a high price for rice growers in order to encourage production.

By retreating on the price issue, the government hopes to head off popular unrest on the scale of last September's rice riots, but public pressure on the government may not be eased immediately. Striking teachers and disaffected politicians are voicing skepticism about the effectiveness and sincerity of the government's action. In any case, these latest measures, along with wage hikes announced earlier, will feed Cambodia's inflationary spiral and could lead to even greater political problems for the government later in the year.

25X1

12 Mar 73

Central Intelligence Bulletin

5

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CHINA: Peking's purchases of whole plants from the West since January already have set a record for any single year.

China's most recent purchase, a Japanese plant to produce materials for the manufacture of synthetic fibers, raises contracts concluded this year to almost \$150 million. Peking had earlier acquired two other petrochemical plants from Japan and three fertilizer plants from the Netherlands. The previous peak year was 1965, when China bought about \$100 million worth of Western plants.

Peking has reverted to its pre - Cultural Revolution practice of making whole plant purchases on medium-term credit. The first two contracts with Japan provide credits at six percent over five years, with the financing provided by the Japanese Export-Import Bank and commercial banks in Japan. No details on financing of the Dutch plants and the latest Japanese plant have been announced, but it is likely that these purchases were made under similar credit arrangements. [redacted]

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ITALY-USSR: Italian Communist Party Secretary-General Berlinguer has arrived in Moscow to discuss "party-to-party business" with the Soviets. The Italian party in recent months has been seeking some means for close consultation and coordination among the Communist parties of the European Communities. It is unlikely that the Soviets look with favor on the idea of a regional grouping of Communist parties, which would strengthen Italian Communist independence from Moscow. Berlinguer has also been trying to establish links with the German Social Democrats and the British Labor Party. His interest in closer ties with non-Communist parties of the left may be another subject for dispute.

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JAPAN-PERU: The state-owned Japanese Petroleum Development Corporation is negotiating to finance construction of a trans-Andean oil pipeline in Peru. Tokyo reportedly is considering lending about \$300 million for a pipeline that will link Peru's Amazon basin oilfields with the Pacific coast. At present, Occidental Petroleum is developing these oil resources jointly with Petroperu, the state oil company. Other foreign oil firms, largely US companies, are conducting preliminary explorations. Tokyo, anxious to diversify its sources of oil, may link the loan with a long-term oil purchase arrangement, as was done with recent loans to Indonesia.

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12 Mar 73

Central Intelligence Bulletin

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